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November 23, 2009

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PUBLIC UTILITIES
COMMISSION

The Honorable Chairman and Members of
the Hawaii Public Utilities Commission
Kekuanaoa Building
465 South King Street, 1st Floor
Honolulu, Hawaii 96813

Dear Commissioners:

RE: Docket No. 2009-0108 – Public Utilities Commission Instituting a
Proceeding to Investigate Proposed Amendments to the Framework for
Integrated Resource Planning.

Pursuant to the Order Approving the Stipulated Procedural Order, as Modified filed on September 23, 2009 ("Procedural Order"), on November 3, 2009, the Hawaii Public Utilities Commission ("Commission") filed a letter in the instant proceeding that transmitted comments provided by the National Regulatory Research Institute ("NRRI") on clean energy scenario planning ("CESP"). The Procedural Order then called for the Parties¹ to file a response to NRRI's comments, which has been titled, *Clean Energy Scenario Planning: thoughts on Creating a Framework* ("NRRI's Comments"). The

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Besides the Consumer Advocate, the Parties to this docket include: Hawaiian Electric Company, Inc. ("HECO"), Maui Electric Company, Ltd. ("MECO"), Hawaii Electric Light Company, Inc. ("HELCO") (HECO, MECO and HELCO may be collectively referred to as the "HECO Companies"), Kauai Island Utility Cooperative ("KIUC"), Department of Business, Economic Development and Tourism ("DBEDT"); County of Hawaii ("COH"); County of Maui ("COM"); County of Kauai ("COK"); Life of the Land ("LOL"); Haiku Design and Analysis ("HDA"); Hawaii Renewable Energy Alliance ("HREA"); Blue Planet Foundation ("Blue Planet"); Hawaii Solar Energy Association ("HSEA"); JW Marriott Ihilani Resort & Spa, Waikoloa Marriott Beach Resort & Spa, Maui Ocean Club, Wailea Marriott, and Marriott Hotel Services, Inc. on behalf of Kauai Marriott Resort & Beach Club (collectively referred to as "Marriotts"); and Forest City Hawaii Residential, Inc. The Commission approved Forest City Hawaii Residential, Inc.'s request to amend its status from intervenor to participant (see Order Granting Forest City Hawaii Residential, Inc.'s Motion for Approval to Amend Its Status as an Intervenor to a Participant, filed on October 26, 2009).

Parties' responses to the NRRI Comments were initially supposed to be filed on November 20, 2009, however, due to the State of Hawaii imposition of furlough days, it is the Consumer Advocate's understanding that the responses should be filed on November 23, 2009. In accordance with that understanding, the Consumer Advocate offers the following response to the NRRI Comments.

Brief summary of Integrated Resources Planning in Hawaii.

The various sections within different preliminary statements of position filed by the Parties, set forth Hawaii's experiences with Integrated Resources Planning ("IRP") and the history associated with the development of the IRP Framework. Hawaii's IRP efforts incorporated the philosophy of developing the "lowest, reasonable cost" plan as opposed to a "least cost plan." To explain, rather than only focusing on developing the least cost plan, the parties strived to develop a plan that would take into consideration various objectives, some of which would be contrary to a least cost plan. Thus, the parties to the IRP process acknowledged that rather than least cost, the focus should be a reasonable plan with the lowest possible costs associated with that plan.

In most, if not all, of the preliminary statements of positions filed by the Parties in the instant proceeding, it is recognized that many changes, and some of them significant, have occurred in Hawaii, Hawaii's energy industry, Hawaii's legislation, and/or other relevant areas. As a result, a change in Hawaii's energy industry planning process seems timely and appropriate. In the *Energy Agreement Among the State of Hawaii, Division of Consumer Advocacy of the Department of Commerce and Consumer Affairs, and the Hawaiian Electric Companies* ("Energy Agreement") signed on October 20, 2008, the concept of CESP was set forth as one of the commitments that would be met by the signatories. As set forth in section 32 of the Energy Agreement, one of the main purposes of scenario planning is to "improve analysis and guidance for Hawaii's clean energy future. . ." The Consumer Advocate supports the idea that a planning process that improves upon the IRP process to help guide the transition to clean and renewable energy is a key objective.

What is Scenario Planning?

Section I of the NRRI Comments asks this question and the follow-up question of how scenario planning differs from IRP. Both of these questions are important, but it is the Consumer Advocate's impression that the answers to both of these questions are still being developed and may require a general definition by design. For this reason, as can be noted by the information requests submitted by the Consumer Advocate on November 10, 2009, the Consumer Advocate is seeking a better definition and understanding, from other signatories to the Energy Agreement, of what elements and/or criteria might comprise a "scenario" and how scenario planning might occur. While the Consumer Advocate has some general thoughts on scenario planning, given the HECO Companies and DBEDT's critical roles to developing the Energy Agreement,

the Consumer Advocate contends that it is important to rely on insights that the other signatories to the Energy Agreement can bring to the table as well as receiving input from those interested stakeholders who are Parties to the instant proceeding.

As noted by NRRI, "scenario planning is necessitated by uncertainties." The movement toward clean energy will include uncertainties as the type of and amount of the renewable energy resources is difficult to forecast due to a number of issues that must be resolved (e.g., whether the resource can be sited, the effects the resource will have on the reliability of the system and cost to the ratepayer). Scenario planning may build in more flexibility into the planning process, consider the underlying uncertainties, and may be a better way to conduct resource planning than was conducted under the IRP.

As generally described in the Energy Agreement, the CESP process will provide "high level guidance" on the long-term vision (page 36), where scenarios will generally:

- Focus on high level planning, such as scenario analyses and a preferred *portfolio of energy sources/types, rather than a prescriptive, detailed plan* (page 38);
- Possibly rely on different policy assumptions, such as major increases or decreases in oil prices, the presence or absence of regulation of certain byproducts, such as carbon or greenhouse gases, and/or the accelerated adoption of plug-in hybrid electric vehicles, to name a few (page 38); and
- Possibly rely on the development of different resource policies that the Commission can or will directly or indirectly influence or direct, such as higher levels of energy efficiency and demand response.

The Energy Agreement also indicated that "a reasonable number of [CESP] scenarios should be developed in consultation with the State, PUC and stakeholders to reflect a range of the possible energy-related policy choices and risks facing the State, its utilities and citizens."

The Consumer Advocate has taken note of the suggestion that "all plausible futures" should be defined by the scenario development process. The Consumer Advocate also notes that NRRI indicates that "effective scenario planning focuses on a relatively small set of scenarios, creatively established." The Consumer Advocate agrees that if a smaller set of scenarios are created, it is much easier to effectively develop an action plan. That being said, however, the Consumer Advocate contends that energy planning cannot reasonably be limited to only two or three variables. Where NRRI's examples only focus on federal environmental policy and electric vehicle technology as part of a 2 X 2 matrix, the Consumer Advocate contends that the possible inputs that should be considered are greater than two or three. As the number of scenarios grows, the process will become more difficult, but ignoring key inputs may result in ineffective and meaningless action plans.

Thus, at this time, the Consumer Advocate does not have specific recommendations or comments regarding what exactly a scenario will consist of or how many should be provided or exist to support the development of an action plan. The Consumer Advocate will, however, offer the following comments:

- Scenarios should cover a fairly broad range of considerations. To explain, the scenarios' need to identify various inputs that will affect the possible outcomes; some of these inputs may be primary (i.e., of primary importance or akin to a mandate) or of a lower level (i.e., desirable, but not necessarily an overriding consideration).
- Scenarios should consider different levels of certain considerations. To explain, in order to plan for a broad range of possibilities, it is necessary to develop different levels for some of the primary or variable inputs. For instance, customer demand may differ and could be characterized as high, medium, and low forecasted levels. Similarly, the price of key commodities should be reflected in scenarios at high and low levels (e.g., fuel, cost of photovoltaic panels, etc.)
- Scenarios, contrary to the suggestion that scenarios are not forecasts, must utilize forecasts, where best efforts have been exerted to develop those forecasts reasonably. While NRRI has asserted that scenarios are not forecasts, as described above in how scenarios should consider different levels of considerations, the Consumer Advocate contends that scenarios are high level forecasts and need to anticipate possible outcomes in order to develop a meaningful action plan. If reasonable forecasts are not developed in order to facilitate the action plan, the relevance of the resulting action plan is likely to be low.
- Scenarios should define a set of "most likely" futures that will be used by the affected stakeholders to facilitate decisions regarding resource decisions. NRRI has suggested that "all plausible futures" should be defined. Not knowing the feasible number of scenarios that can be reasonably developed, requiring all plausible futures to be defined may be onerous and too costly. Thus, before any decision can be made regarding the scope or total number of scenarios to be developed during any period of time, a better understanding of what scenarios are and what work is required to develop those scenarios is necessary.

To ensure that the scenarios are useful, mandates or other important objectives should clearly be identified. As suggested in the Consumer Advocate's preliminary statement of position, government mandates or other requirements can be incorporated within the framework, but it might be best to do so as an appendix or addendum to the main body of the framework. Since these government mandates are likely to change, possibly from year to year, it is easier to change an appendix to the framework than it is

to change the entire framework. Then, if such changes do occur, scenarios can be modified, supplemented and removed from consideration as necessary without changing the CESP framework.

The Development of an Action Plan in the Scenario Planning Process.

Once the scenarios are developed, these scenarios will be an integral part of developing the action plan. As already mentioned, the CESP or any alternative to the IRP process should avoid being too prescriptive. An action plan that is too prescriptive will raise various issues such as the ability of the plan to adapt to changes in inputs and assumptions that were critical to the development of that plan. In addition, a plan that is too descriptive will most likely create situations where stakeholders will assert that their preferences were not adequately represented, whether a matter of perception or in fact, in the action plan.

NRRI's comments offer an analogy of a home that should be built or bought as a result of a process that includes consideration of "all" factors that might influence the home building or buying decisions. As discussed above, the Consumer Advocate generally agrees with the need to develop a fairly comprehensive set of scenarios to cover most, if not all, of the key inputs and assumptions. One point that the Consumer Advocate would like to stress is that it is impractical or unreasonable to assume that any one action plan would necessarily be able to accommodate all possibilities. The cost to develop such a plan might be prohibitive. In addition, an action plan might similarly suggest courses of action that might not be the most cost effective solution. In keeping to the home buying analogy, families often consider all relevant near and medium term possibilities to influence their immediate home buying decision. Then, after some period of time, the near and medium term possibilities are again re-evaluated to determine whether the current home continues to meet near and medium term needs, and, if not, to determine what type of home might be required to meet the near and medium term needs. At that point, the decision might be made to upgrade, or downgrade, the home to meet the forecasted needs.

At this time, the Consumer Advocate envisions that the scenarios will provide the articulation or definition of various decision trees or paths that could be pursued, depending on how facts, circumstances, and policy inputs might occur. Thus, in the future, as events and facts are realized (as opposed to being forecasted), the utility companies can determine whether the current action plan still reflects the best course of action for the current facts and circumstances. If not, there may be a need to modify the current action plan, even if between the formal cycle of developing the action plan, by analyzing some of the scenarios that might have reflected forecasted inputs, then alternative at the time of development, that are better aligned to the facts and circumstances in the future. Thus, the Consumer Advocate appreciates the NRRI suggestion regarding monitoring conditions in order to support the need to change scenarios. As already mentioned, the Consumer Advocate does not envision developing scenarios or action plans that are deemed to represent a "final product" that is not subject to change, even between formal development cycles. With the many

various changes that are occurring in various key input areas, an assumption that the formal development cycle of the scenarios and action plans producing an immutable plan is not practical.

In any event, the Consumer Advocate further envisions that the action plan, while not prescriptive, will provide the reference from which utility companies can rely upon to support the specific applications that will be filed with the Commission. Whether that application might be a capital improvement project application filed in accordance with General Order No. 7, rule 2.3.g.2 or an application under the competitive bidding framework, to name two possible examples, the utility company should clearly indicate to the Commission how any item complies with the action plan, or if the requested relief represents a deviation from the action plan, the utility company should provide the reasons why the deviation is necessary and may also need to provide a modified action plan that highlights the key inputs that varied from the inputs used to develop the original action plan.

The Consumer Advocate would also like to stress the need to develop scenarios and action plans that explicitly balance critical considerations. Policy decisions must be clear as to what should be weighted most heavily of the following: 1) cost; 2) renewable; and 3) reliability. To some extent, all of these can be achieved, but there must be some balancing. To develop electrical systems with greater penetration of renewable energy sources in a short-time frame and high levels of reliability, those systems will have greater cost. As an alternative, if costs are to be kept low, but high levels of renewable energy sources are to be introduced within a short-time frame, system reliability standards and expectations will be need to be lower.

The idea of rapid migration to a clean energy future is alluring, but adequate consideration should be given to the other two factors of reliability and cost. Fairly recent events certainly highlight the importance of these other factors. With two island-wide outages on the island of Oahu (in 2006 and 2008), system reliability should certainly be given heightened consideration. While the Consumer Advocate is not readily aware of the economic and opportunity costs associated with the two outages, such costs are not likely to be minimal. Furthermore, any plan that ultimately results in ever increasing rates to Hawaii's businesses and residents will certainly impede or adversely affect Hawaii's economy. In the current economic conditions, any actions that will result in electricity representing a larger portion of operating budgets (for home and businesses) could certainly cause undesirable effects, such as business closures, loss of jobs (as businesses must cost costs), people leaving the islands, etc.

CESP Should Allow Various Stakeholders to Contribute.

In order to develop the best possible scenarios and action plans, the CESP process should allow all relevant stakeholders to participate and contribute to the process. Unnecessary exclusion may limit information that may be useful in identifying important inputs to developing scenarios and the resulting action plan. Thus, as already

offered in the Consumer Advocate's preliminary statement of position, the process should include the electric companies, including Kauai Island Utility Cooperative, but should also include the Gas Company and the third party administrator of energy efficiency programs. This was not a comprehensive list of parties that should be required to participate in the relevant planning process and additional parties should be invited to participate.

However, the process should not mandate the participation of too many parties. To do so would probably facilitate the likelihood that the process may be too unwieldy and cumbersome. If this occurs, some of the criticisms that were leveled about the IRP process and the lack of meaningful results are likely to occur again. That is, if too many parties are required to participate, some of the flexibility and dynamic features that are being suggested would not be possible. It is axiomatic that administering and organizing a larger group of participants as compared to a smaller group raises more issues. Thus, the Commission should avoid trying to mandate the participation on every stakeholder that would possibly be affected or that could affect any given scenario.

For example, NRRI has suggested that the Commission require the participation of the Commission regulated water and wastewater utility companies. The Consumer Advocate can appreciate the possible reasons that this suggestion was made, but this suggestion seems to overlook certain factors that would support why such a suggestion may not be practical or reasonable. For instance, while these companies are regulated by the Commission and could be ordered to participate, such participation would likely increase the cost of service to the customers of those companies since participation in the process would take away available labor. These companies do not generally have regulatory staff and requiring the presence of these companies means that additional labor and/or non-labor resources would be required to continue the operating and maintenance of the companies, which would only increase the cost of service to be collected from the ratepayers. During these tough economic times, we should look for ways to decrease, not increase, the cost of service that is collected from ratepayers. Another factor is that these companies, while all rely on electricity and some form of fuel, in certain instances, are generally small in nature. While the cumulative contribution from all of the companies may add up to some percentage of an individual electric grid, a single company or even a handful may not have the same impact as other possible participants. NRRI may not be aware that the largest providers of water and wastewater services on most of the islands are actually operated and maintained by the municipalities, or more accurately, a county organization.

The Consumer Advocate does, however, agree that it is necessary to identify the necessary participants to the process. Possible groups of stakeholders could certainly include the following:

- The electric companies;
- The gas company;

- The third-party administrators;
- The fuel suppliers;
- The independent power producers;
- Vendors or developers of energy efficiency technology and solutions;
- Vendors or developers of renewable energy technology and solutions;
- Large customers, which include, but are not limited to:
 - The Department of Defense ("DoD");
 - Hotels or hotel organizations;
 - Government (State, Local, and to the extent not represented by the DoD, Federal);
 - Organizations of building maintenance and administration; and
 - Municipal utility agencies.
- Emergency management agency (Civil Defense); and
- Cultural and environmental caretakers.

While certain stakeholders should necessarily provide essential information to the process, it is possible that requiring the participation by all possible stakeholders might only make the CESP process too cumbersome. Furthermore, it is the Consumer Advocate's understanding that if there is information that is necessary from certain large users or groups of customers, the utility companies have customer managers that can solicit the information to bring to the process.

Thus, even if indirectly, participation by certain organizations or customers will be facilitated through existing information gathering processes. Although one possible consideration might be that a standardized form of information presentation might be developed to facilitate the use of that information within the scenario and action plan development. Then, as suggested in the Consumer Advocate's preliminary statement of position in the instant proceeding, making that information through a commonly available website would help to make certain things transparent.²

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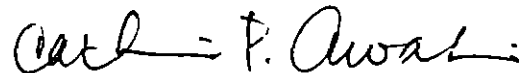
There may be a need to filter certain forms of information, however. While the Consumer Advocate cannot anticipate what that need might be, it is not uncommon for certain customers to keep information specific to their uses, etc. out of the public domain. The option should be made clear and known to customers before that information is publicly disclosed.

The Honorable Chairman and
Members of the Commission
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Summary.

NRRI's comments raised very relevant questions and gave rise to various thoughts and possibilities. Thus, the Consumer Advocate has considered the questions, thoughts and suggestions that NRRI provided and offers this reply for the Commission's and the other parties' consideration. In many areas, the Consumer Advocate generally agrees with certain thoughts or suggestions, but in other areas, NRRI's comments may either appear to be contrary to Hawaii's best interests or may appear to be internally inconsistent. The Consumer Advocate will continue to think about and consider the comments and looks forward to the further development of the ideas and consideration that will be required to develop a planning process that will facilitate Hawaii's transition to a new and improved form of planning that will enable Hawaii's migration to the clean and renewable energy industry that is targeted in the Energy Agreement.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Catherine P. Awakuni".

Catherine P. Awakuni
Executive Director

CPA:dl

c: See attached Certificate of Service

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing was duly served upon the following parties, by personal service, hand delivery, and/or U.S. mail, postage prepaid, and properly addressed pursuant to HAR § 6-61-21(d).

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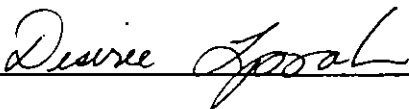
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DATED: Honolulu, Hawaii, November 23, 2009.



A handwritten signature in cursive script, reading "Denise Spool", is written over a horizontal line.